

Independent Evaluator Joaquín Almunia in interview with To Vima (Greece)

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Interview with Independent Evaluator Joaquín Almunia

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To Vima: You must admit that your report offers a rather bleak assessment of the EFSF/ESM programmes in Greece. Would you agree with that observation?

Joaquín Almunia: I would start by saying that the overall objective of the programmes, to preserve the integrity of the euro area and to restore financial stability in Greece, was achieved. But, an independent evaluation report is not a text to underline only the positive aspects. It is a learning exercise for the ESM. You can find many ideas in the report that consider the achievements of the programmes, mainly focusing on the ESM programme in 2015, but also referring to the previous EFSF financial assistance and the post-programme period. The report also evaluates what needs to be done in the future. If you take into account the roots and the origins of the Greek crisis, the way the economy behaved during the first years of the euro, and the impact of the first crisis' years, all these imbalances in the economy and the effects on society could not be solved in such a short period. My responsibility as an evaluator was to provide food for thought for those who will continue to be responsible for the Greek economy and society. I wanted to offer a realistic view.

Based on your analysis, the programmes provided “insufficient attention to the underlying social needs” and “stakeholders settled for a low growth equilibrium... prioritizing fiscal targets over growth”. Why did that happen?

At the beginning of the EFSF programme and even in the first adjustment programme (GLF), which is not evaluated in this report, the social needs were included into the objectives. In practice though, only in the ESM programme, this is the third adjustment programme, were there precise measures to correct the more serious social imbalances, in particular poverty. During the third programme, the inequalities index started to improve because of improvements in the labor market and the introduction of the minimum revenue guarantee. Until then the focus was on the fiscal adjustment because of the huge fiscal and external imbalances. The consequences of this fiscal adjustment in terms of growth and unemployment were serious. The programmes' implementation was excessively focused on correcting the fiscal imbalances and at the end of the day the success or the failure of the

reviews were mainly based on the degree of this correction. This had consequences not only concerning social fairness but also in terms of public opinion support and ownership of the programmes. Growth aspects were not put at the center of the priorities. This led to a reduction of public and private investment which had negative consequences in the medium and long term”.

How much did the “different institutional mandates” among the troika contribute to errors in programme-design? Was the presence of the IMF problematic or should the Fund feel vindicated by its stance on debt restructuring? What was the role of certain member states in programme design?

The mandate and the governance procedures of the three institutions are different. My recommendations in this report refer to the need for ex-ante coordination among the institutions. In any case, I think the institutions played a positive role in their common approach when adopting a programme. In the ESM programme, the IMF was not a full part of it. It did not disburse a single euro. The most difficult issue was debt restructuring and sustainability. I propose that the methodology for a debt sustainability assessment be coordinated ex-ante. The methodology needs to be clear. Thinking ahead, I believe some member states will continue to require the participation of the IMF, something included in the ESM Treaty.

You mention “subdued growth”, “fiscal imbalances” and interest rate increases” as possible risks to Greece’s long-term sustainability. Could you explain to us what do you mean?

When a programme is completed, the sustainability of the achievements needs to be guaranteed. This is even more the case for the ESM, as the representative of those who want the money lent to be paid back, and given that the maturities of the loans are exceptionally long. Post-programme surveillance is different from the programme reviews. But it is a big issue. For reforms to be launched or implemented after the programme, we need to ensure that the political will to continue to support the reform path is extended to the future. This applies to the Institutions but also to Greek political leaders, be they in government or in opposition. It is a collective responsibility for both the Institutions and Greek political leaders to safeguard sustainability. There is also a case for advocacy, which goes beyond surveillance and market pressures. How to build a strong sense of cooperation to continuously

advocate for the right priorities for reforms and avoid structural imbalances in the future is an important issue.

Greece entered a series of adjustment programmes in 2010. This came because of irresponsible economic policies between 2004-2009. You served as Commissioner for Economic and Financial Affairs during the same period. It seems like you waited too long to ring the alarm bell. Why?

I am not someone who can say he is completely satisfied with everything done in the past. However, I remember when I took over as Commissioner for Financial and Economic Affairs in April 2004, one of my first decisions was to open an Excessive Deficit Procedure (EDP) vis a vis some member states. One of the them was Greece, during the first months of the Karamanlis government. At the same time, there was a discussion about the statistical data provided by Greece at the Eurogroup/Ecofin level. I requested from the Ecofin to give to the Commission audit powers on the fiscal accounts in those member states for which Eurostat had doubts about their reliability. The Ecofin ministers denied this, even if they knew quite well the lack of reliability of some of the Greek figures. I believe this was a big mistake. During these years, we were almost obliged to believe the accuracy of figures provided. When, in October 2009, the Papandreou government opened the books, I was not surprised. In June 2009, months before the elections, I communicated in writing to the Eurogroup ministers that the real figures of the public deficit in Greece for 2009 were above 10% but we had not received powers to investigate the real data. It was difficult to understand the level of reliability of expenditures for defense, health, and local administration. When in 2010 the Ecofin allowed the Commission to use audit powers, the clarifications were on the table. The Greek authorities cooperated strongly and today Greek statistics are as reliable as in any other country.

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